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Restaurant Business

NOVEMBER 1, 1980

California TREND SETTERS

page 133

American Entrees

page 211

Restaurant Business

NOVEMBER 1, 1980 VOL. 79, NO. 14

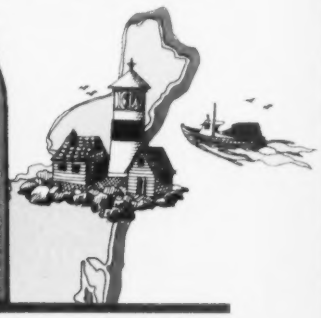
Contents

COVER STORY

The California Trendsetters—The "land of unlimited growth" continues to produce some of the country's most innovative restaurants which are setting the trends for the 80s **133**

MENU IDEAS

American Entrees—Food editor Kathleen Kenny takes a culinary tour of the states and suggests a variety of country casseroles **211**



FEATURES

The Science of Target Marketing—An analysis of advertising segmentation and positioning and what makes these marketing techniques such powerful tools for developing business **102**

Television Advertising—Restaurants and fast food chains spent over $310 million on national and local television. Restaurant Business lists the top 15 spenders **114**

Firehouse No. 2—A stylish decor and award-winning menu have helped this 53-year old renovated firehouse remain a local landmark generating over $1 million in sales **118**

Menu Management—Food consultant Carol King continues her series on how to audit your menu and control food costs . . . **124**

The Hotel Boom in New York City—Several new hotels have already opened and others are set to make their debut bringing with them a plethora of new restaurants ranging from the casual to the elite **128**

International Expansion—U.S. chains have found a new frontier and are beginning to flood international markets finding them competitive, yet profitable **146**

A Mansion of Fine Dining—A renovated brownstone combining the elegance of an English Regency townhouse and the glamour of a sidewalk cafe have helped David Wolf's stand alone amidst dozens of other restaurants that line New York's 56th St. **148**

Franchise Fraud—The second part of our investigative report presents four detailed cases of fraud charges against: Wild Bill's, Hot Box Pizza, Pie Tree and Bagel Nosh as well as expert advice on how to fight the problem **152**

DEPARTMENTS

Legal Tips **2**

RB Insights **12**

Editorial **16**

Foodservice Calendar **18**

Up Front **22**

Menu Planners Guide **58**

Restaurant Stirrings **76**

Tax Bite—Surveying the 1980 tax scene **82**

Management Psychology—Curing prime of life alienation **86**

Personal Finance—Impact of inflation on investments **88**

Family-owned Business—The real world of the entrepreneur **90**

Worth Writing For—Publications to help you on the job **96**

Trade Quotes **98**

Management—Making the most of meetings **100**

Buyer's Circle—The latest in foodservice equipment **194**

Drafts, Carafes & Spirits—Some like it hot **203**

Bar Management Guide—New spirits, mixers and bar equipment **206**

Design Marketplace **219**

Raising Your Equipment I.Q.—The versatile tilting skillet **220**

Classified **246**

Cover Design by Joan Dworkin

Circle No. 12 →

Television Advertising

Fast food chains spend most $

Restaurants and fast food chains spent almost twice as much money on both local and network advertising than all other retail categories in 1979. This information was recently made available in the Broadcast Advisor Reports (BAR) prepared by the Television Bureau of Advertising.

Locally, restaurants spent a total of $310 million in "ads and jingles" compared to $159 spent by its closest competitor, food stores and supermarkets. Auto and truck dealers followed with $145 million and department stores spent $140 million.

The $310 million expenditure represents an increase of 19 percent over the $261 million spent in 1978. Restaurants also led network advertising with $142 million.

Food and food products (at-home foods) poured the most money into TV with an investment totalling over $1.3 billion.

McDonald's, the perennial leader in advertising expenditures, topped 1979 with $75 million in local and $62 million in network advertising. This represents a 20 percent increase over 1978. McDonald's total investment of over $137 million pushed the company into the number seven spot in Top 100 television advertisers.

McDonald's nearest competitor is Burger King with total advertising expenditures of $43 million. Burger King's concentration on local markets is reflected in a 41 percent increase in local advertising.

Other companies demonstrating considerable increases in local advertising are Long John Silver's and Jack in the Box registering 119 percent and 106 percent, respectively.

Strong gains locally, were also reported by Red Lobster (ranked fourth and up 64 percent); Taco Bell (ranked 11th and up 71 percent) and Hardee's (ranked 12th and up 64 percent).

Arthur Treacher's, ranked 10th in the Top 15, was the only chain to reduce local advertising and is down 17 percent from 1978.

continued on page 117

Top 15 local television advertisers—1979

	1978	1979	% Chg.
1. **McDonald's**	$ 66,310,500	$ 75,334,300	+14
2. **Burger King**	15,725,900	22,201,800	+41
3. **Kentucky Fried Chicken**	13,735,200	14,322,200	+4
4. **Red Lobster Inns**	7,855,700	12,880,100	+64
5. **Wendy's**	10,448,200	10,834,200	+4
6. **Long John Silver's**	4,791,500	10,499,900	+119
7. **Arby's Drive In**	9,235,300	9,496,400	+3
8. **Sizzler Steak House**	6,307,000	7,863,000	+25
9. **Jack in the Box**	3,694,900	7,606,200	+106
10. **Arthur Treacher's**	9,094,100	7,589,200	−17
11. **Taco Bell**	4,291,100	7,357,300	+71
12. **Hardee's**	4,161,200	6,844,100	+64
13. **Big Boy**	5,177,400	5,745,800	+11
14. **Burger Chef**	4,547,500	5,438,000	+20
15. **Dairy Queen**	4,449,100	5,365,100	+21
Total top 15	$169,833,600	$209,378,500	+23
Total restaurants & fast food chains	$261,066,700	$310,498,100	+19

SOURCE: Television Bureau of Advertising, based on Broadcast Advertisers Reports data.

McDonald's, the perennial leader in advertising expenditures, spent over $137 million on TV; over $94 million more than its nearest competitor.

Top 15 television advertisers—1979

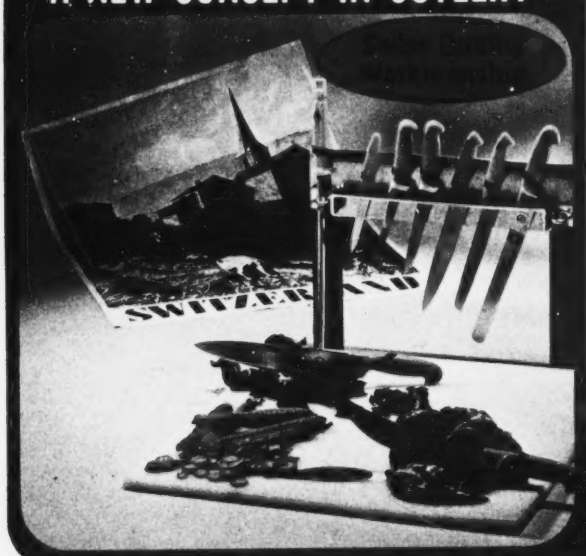
	NETWORK	LOCAL	TOTAL TV	'78 vs '79 % Chg.
1. McDonald's	$62,456,300	$75,334,300	$137,790,600	+20
2. Burger King	21,403,200	22,201,800	43,605,000	+21
3. Kentucky Fried Chicken	17,233,700	14,322,200	31,555,900	+11
4. Wendy's	8,866,200	10,834,200	19,700,400	+4
5. Pizza Hut	10,363,800	3,510,100	13,873,900	+3
6. Red Lobster Inns	177,800	12,880,100	13,057,900	+14
7. Arby's Drive In	3,423,500	9,496,400	12,919,900	+40
8. Long John Silver's	1,876,000	10,499,900	12,375,900	+82
9. Sambo's	7,620,500	866,600	8,487,100	+28
10. Ponderosa	3,677,300	4,338,700	8,016,000	-0-
11. Sizzler Steak House	—	7,863,900	7,863,900	+25
12. Jack in the Box	—	7,606,200	7,606,200	+106
13. Arthur Treacher's	—	7,589,200	7,589,200	−17
14. Taco Bell	—	7,357,300	7,357,300	+71
15. Hardee's	—	6,844,100	6,844,100	+64

SOURCE: Television Bureau of Advertising, based on Broadcast Advertisers Reports (BAR) data.

SWIBO

INTEDGE

A NEW CONCEPT IN CUTLERY



THE ORIGINAL SANITARY DESIGNED KNIFE WITH THE YELLOW GENUINE NYLON HANDLE!

EXCLUSIVE SWIBO FEATURES:

- Super stainless steel blades are made of the finest micro-precision super-stainless steel, with the new "Maxiflex" steel treatment resulting in a superior longer-lasting cutting edge.
- Top quality nylon handles have no rivets, and cannot absolve grease or water.
- Not affected by water of boiling temperature.
- Virtually unbreakable, the handle will not crack or chip.

The sure, non-slip grip which insures less fatigue.

THE FINEST QUALITY AVAILABLE

INTERNATIONAL EDGE TOOL CO.

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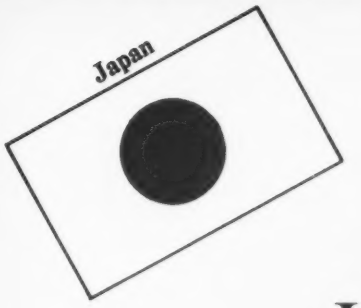
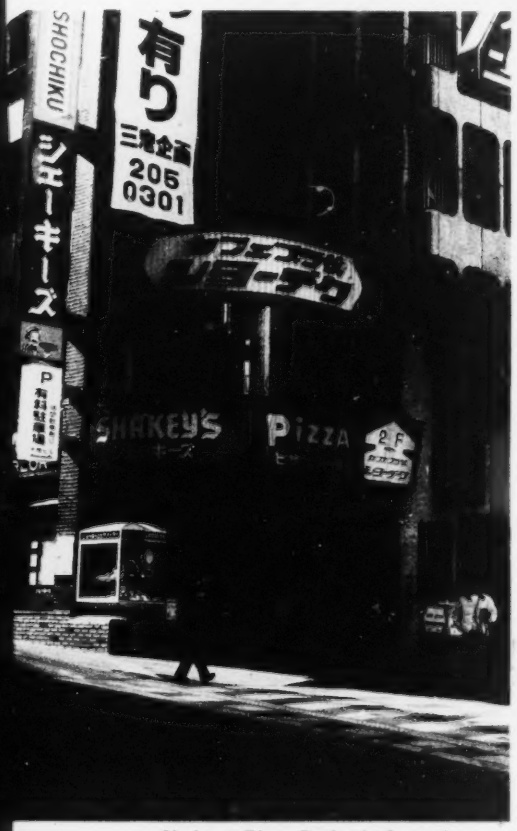


International Expansion

U.S. chains find new frontier

by Carol Lynn Tiegs

Since 1975, the rate of foreign expansion has exceeded that of domestic growth. During 1980, an estimated 100 companies planned to expand into international markets with McDonald's, Pizza Hut and KFC leading the pack.



Shakey's Pizza Parlor in Japan has added squid to its menu.

The trickle of American foodservice companies expanding their operations internationally during the 1970s threatens to become a flood in the 1980s.

While some industry observers agree with Salomon Brothers' Robert Emerson that the companies which will experience the most international success in the 80s will be the same as did in the 70s—McDonald's, Pizza Hut, and Kentucky Fried Chicken—others concur with Burger Queen senior vice president, Mike Kull, that international expansion offers the medium-sized company a chance to compete favorably with the industry giants in a totally new market area.

Companies are making the decision to expand for a variety of reasons and sometimes the impetus is purely accidental. Arby's, for instance, had targeted three countries for expansion and was approached accidentally by firms in three other areas who heard of their expansion plans. Likewise, Old Spaghetti Factory president, Guss Dussen reports that they went international simply because the opportunity arose.

Taking a more calculated approach, Victoria Station settled first on expansion into Japan because of its strong middle class, adaptability and interest in Western styles, and because it had been tested by other U.S. foodservice companies.

Other companies are conducting careful research and market studies of potential international markets to see if their food concept will be compatible with local tastes.

"The combination of legal constraint and market saturation (particularly in the fast food industry) has stimulated the expansion of franchising into foreign markets," writes Julian E. Jacoby and Lynn McGowan in L&H Perspective (*"Franchising Today: A Whole New Ballgame."*) "Since 1975, the rate of foreign expansion has exceeded that of domestic growth. In 1977, for example, 244 U.S. franchising companies had established more than 14,000 foreign franchises throughout the world. During 1980, nearly 100 additional companies plan to extend their franchise operations into international markets."

Japan and Europe particularly are experiencing an increase in the number of working women. As in the U.S., this is making dining out

more of a necessity for many families.

Americans have lagged behind European restaurateurs in realizing that Japan's tax structure makes Japan an excellent market for the foodservice industry, says Takeshi Kohjima, executive vice president, Yoshinoya & Company U.S.A., Inc. One half of one percent of all corporate profit may be allotted towards entertainment under Japanese tax law, so corporate expense accounts are excellent.

However, profitability is the prime motive for any expansion effort. KFC spokesman Peter Egan reports that their foreign operations are "growing generally about two times as fast in dollar sales than in the U.S."

"Sales per store for foreign units of American-based fast food operators are generally well above those in the U.S." according to Salomon Brothers', February 1980 study of "U.S. Fast Food Operators in Foreign Markets."

In the case of Burger King, annual sales per store ranged from $2,100,000 in Britain, to $1,400,000 in West Germany, to $1,100,000 in Canada, to $950,000 in Australia, to $710,000 in the U.S. during 1979.

Currently, with the possible exception of Japan and Canada, American foodservice companies have the advantage of entering countries which are almost virgin territory in terms of penetration by other foodservice chains.

Methods of expansion are as diverse as the reasons. Many companies are following all four expansion means used by McDonald's Corporation: units wholly owned by McDonald's; a joint venture with a local corporate organization; developmental licenses for a number of units in a specified territory; and licensing of a single store to an individual entrepreneur.

Salomon Brothers' Emerson gives the market edge to firms committed to opening a large number of company-operated units abroad. "While profitable in terms of return on investment, licensing does not maximize potential profits in terms of absolute dollars," he explains.

Other companies would argue that the ability to minimize investment risk makes licensing or franchising the better expansion route.

In several countries, including the Philippines, at least a portion of the operation must be owned by a national company making joint ventures or licensing the only route possible.

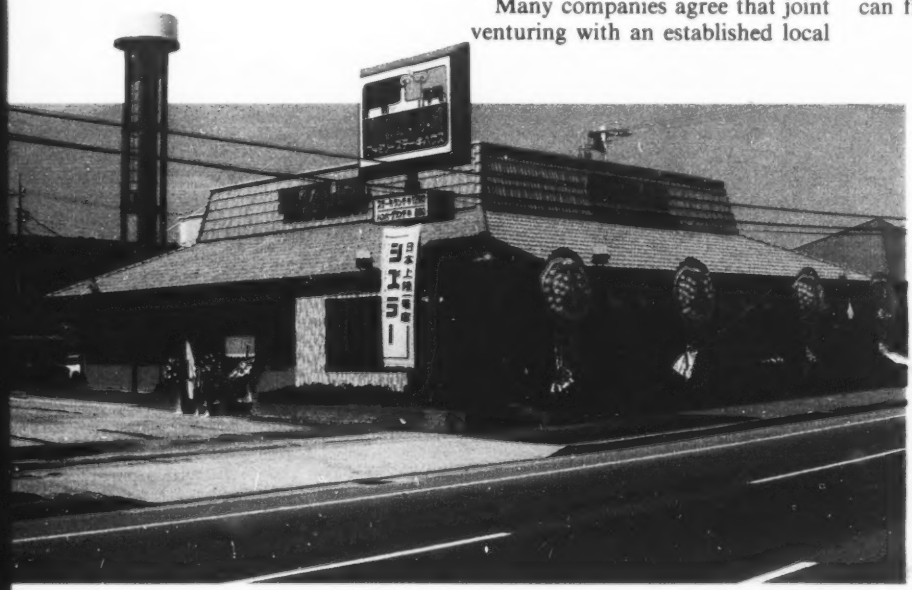
Many companies agree that joint venturing with an established local foodservice corporation can be highly advantageous in terms of knowledge of the market and ability to deal with local customs and regulations. The joint venture route seems especially popular in Japan and the Middle East, and major European foodservice companies are expressing an interest in allying themselves with expanding U.S. firms. This is beginning to create an overlap in franchise operations becoming apparent in the U.S.

Burger Queen, for example, is dealing in Great Britain with Grand Metropolitan, a large conglomerate which recently purchased the Liggett Group, and also owns Berni Inns, the steakhouse chain which recently purchased licensing rights to Wendy's Old Fashioned Hamburgers.

Edouard Catzeflis, president of the European Franchise Federation, warns all companies expanding into foreign markets that they must be prepared to adjust their programs to conform to local customs and laws.

"You must not believe that because a formula, a format has wonderfully succeeded in the U.S.A., that it must be automatically the same in Europe. The examples are numerous . . . of resounding failures . . . in Europe because the American franchisor wanted, stubbornly,

continued on page 184



The first Japanese Sizzler Family Steak House is almost identical to American units. This free-standing unit was built to enhance the Sizzler image and will be the only one because of high real estate costs.

to impose his exact formula on the European market, refusing to adapt it to the tastes and particularity of the markets in which he wanted to expand," Catzeflis told attendees at the 1980 convention of the International Franchise Association.

Companies expanding internationally are making their major concept modifications in secondary menu items. Arby's, for instance, will not be serving ham sandwiches in its Middle East units. KFC serves "chips" in England, rice and smoked chicken in Japan, peas and rotisserie chicken in Australia.

Wendy's added shrimp cake sandwiches in Japan; Denny's has found pizza to be very popular with the Japanese; and A & W is offering a breakfast menu in its Japanese units.

Many firms are adding dessert items they don't offer in the U.S. Burger King, for example, will offer custards in Spain, a strudel in Germany, and after dinner coffee in France. And nearly everyone is adding beer and wine to the menu in Europe.

Modifications in building design are also prevelant. In Europe, companies must remodel buildings hundreds of years old to suit their purposes. Free-standing restaurants are rare there, and also in Japan where real estate and land costs are extremely high.

Old Spaghetti Factory restaurants in Japan will average 250 seats, compared with 350 in the U.S. due to difficulty in locating sites.

The first of Collins Foods International's Japanese Sizzler Family Steak Houses was free-standing as an image builder, but the rest won't be because of high real estate costs, reports vice president David Gaon.

Hardee's has developed a smaller, more compact unit in response to Japanese land costs. The customer service area is on one level, and seating on another. Systems have been adjusted so a complete menu can still be offered. The company is looking at more in-store locations, says Gene Arnold, senior vice president for development.

Both Hardee's and A & W report that drive-ins are popular in the Middle Eastern countries, which of course, are not overly concerned with an energy crisis.

Shifting, drifting sands are a problem in building in the Middle East . . . how do you keep the sand out of the store?

Shakey's, which added chorizo in Mexican units, vegetarian pizza in the Far East, squid and cuttlefish in Japan, and fried chicken everywhere, is using a wooden lattice in units in the Philippines. They and Denny's are also developing more compact stores.

Lower labor costs, and higher volumes tend to offset higher land and real estate costs, however, says Gaon of Collins Foods.

Denny's has developed new site

continued on page 186

Burger Queen's restaurants in England are known as Huckleberry's, above, in order to avoid insult to the nation's queen. Basically, Huckleberry's offers the same menu as Burger Queen does in the U.S. The Company is planning to change the name of its domestic units because of increased competition and may adopt the Huckleberry's tradename. Left, one of 266 Kentucky Fried Chicken units operating in the United Kingdom.

International Operations of American Chains

AUSTRALIA:
Burger King—22 units; **KFC**—191 units; **McDonald's**—108 units; **Pizza Hut**—96 units.

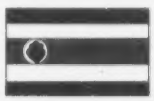
AUSTRIA:
McDonald's—1 unit.

BELGIUM:
McDonald's—3 units; **Wendy's**—1 unit.

BRAZIL:
McDonald's—2 units.

CANADA:
Baskin Robbins—53 units; **Burger King**—49 units; **Burger Queen**—1 unit; **International Dairy Queen**—357 units; **Dunkin' Donut**—20 units; **KFC**—614 units; **McDonald's**—340 units; **Mr. Donut**—48 units; **Pizza Hut**—45 units; **Victoria Station**—4 units; **Wendy's**—50 units. (Also: **Denny's, Shakey's, Swensen's Ice Cream,** and **Bressler's 33 Flavors**.)

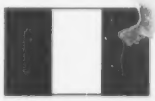
CARIBBEAN:
McDonald's—7 units.



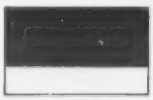
COSTA RICA:
Hardee's—1 units; **McDonald's**—3 units.

EL SALVADOR:
Hardee's—4 units; **McDonald's**—3 units.

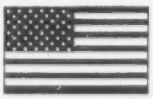
FAR EAST:
McDonald's—18 units. (Also: **A & W, Shakey's**)



FRANCE:
McDonald's—15 units.



WEST GERMANY:
Burger King—18 units; **KFC**—20 units; **McDonald's**—104 units; **Wendy's**—2 units.



GUAM:
Winchell's—2 units. (Also: **Shakey's**)

GUATAMALA:
Hardee's—3 units; **McDonald's**—2 units.

selection criteria, reports director of international administration Peter Grieder, paying more attention to pedestrian traffic and less to auto traffic.

Signage and advertising are other areas where concessions must be made to comply with local laws and customs.

Advertising is government regulated in some countries, points out Egan of KFC/Hueblein. In South Africa, advertising programs must be submitted a year in advance.

Shakey's uses much the same ad strategies abroad as at home. It supplies about 95 percent of the creative elements of advertising, but lets the local operator make layout changes appropriate to the locale or medium.

Kiosks and cinema are two mediums not frequently used in the U.S., but prevelant in foreign advertising.

Several firms have selected international advertising firms familiar with a variety of markets.

Betty Young of Wendy's says that company encountered problems with the legality of its logo. It does not use the "s" on the end of the tradename, since Wendy's was too much like the names of other companies.

Burger Queen operates under the Huckleberry's tradename in England to avoid insult to that nation's queen.

Among other problems encountered in international operations, cost and availability of supplies is a major concern.

Victoria Station says it will pay two to two and one-half times as much for beef for its Japanese restaurants, and menu prices will be affected accordingly.

Burger Queen must import about 85 percent of the food items for its Middle Eastern operations, down to the milk shake base, because there is no fresh milk. Wendy's is also shipping many products and equipment items from the U.S.

Remember that many parts of the world operate on a different voltage and phase of electricity than the U.S. Several foodservice companies have shipped U.S.-manufactured equipment overseas only to find it couldn't be adapted to local electrical currents.

Denny's Grieder mentions that dollar to yen fluctuations can affect royalty payments considerably . . . the less the dollar is worth, the lower the royalty.

Collins Foods avoids countries

continued on page 188

which limit the amount of money which goes out of the country. Collins did market research prior to expansion to determine where they would do best with the Sizzler concept, what already exists in foodservice in a given market, and what customers have to spend.

Most of Burger King's problems lie in getting dollars out of some countries, says Cliff Gamache. He also cites prohibitive trade laws in South America, and the possibility of trademark loss there after five years of use. Nevertheless, Burger King is interested in expanding in Buenes Aries and Rio de Janero.

Companies seem to agree that the elements of success in international expansion are not that different than at home: trained management and personnel; proximity to locations for adequate supervision and supply; and experienced partners.

Hardee's believes that distance and management problems were the major drawbacks in their 1968 debut in Germany. "There was no international department then and no training program," Gene Arnold recalls, "and Hardee's tried to adopt its domestic program directly. They had to educate the Germans about fast food. "The more companies that came in, the better," Arnold remarks, since it spread the educational burden.

Now Hardee's is concentrating on expansion in Central America which is closer to the U.S. and allows for easier supervision. They see European expansion as a future goal, to undertake when they are sure they can do it right.

Setting up a separate international division is a course recommended by international firms and consultants alike.

Lack of national personnel trained in foodservice and administration is a prime reason why many companies choose to expand through joint venture with an estab-

continued on page 192

International Operations of American Chains

IRELAND:
McDonald's—2 units.

JAPAN:
A & W—7 units; **Churches Fried Chicken**—2 units; **Baskin-Robbins**—105 units; **Big Boy Restaurants**—3 units; **Collins Foods**—2 units; **Denny's**—104 units; **Dunkin' Donuts**—80 units; **Hardee's**—2 units; **IHOP**—3 units; **International Dairy Queen**—148 units; **Long John Silver's Seafood Shoppes**—3 units; **KFC**—212 units; **McDonald's**— 216 units; **Mr. Donut**—250 units; **Orange Julius**—1 unit; **Pizza Hut**— 21 units; **Shakey's**—30 units; **Tastee Freeze**—2 units; **Wendy's**—1 unit.

MEXICO:
Denny's—20 units; **KFC**—50 units; **Pizza Hut**—6 units. (Also: **Church's, Shakey's**)

MIDDLE EAST:
Burger Queen—2 units; **Happy Joe's Pizza**—2 units.

NETHERLANDS:
McDonald's—17 units. (Also: **Pizza Hut**)

NEW ZEALAND:
Burger King—27 units; **KFC**—37 units; **McDonald's**—7 units; **Pizza Hut**—96 units.

NICARAGUA:
McDonald's—1 unit.

PANAMA:
McDonald's—5 units.

SOUTH AFRICA:
Burger King—77 units; **KFC**—77 units.

SWEDEN:
McDonald's—9 units. (Also: **Burger King**)

SPAIN:
Burger King—6 units; **Winchell's**—1 unit.

SWITZERLAND:
McDonald's—4 units; **Wendy's**—1 unit.

TAIWAN:
Burger Queen—3 units.

UNITED KINGDOM:
Burger King—2 units; **Burger Queen** (Huckleberry's)—4 units; **KFC**—266 units; **McDonald's**—40 units; **Pizza Hut**—7 units. (Also **Baskin-Robbins**)

lished local foodservice firm.

Finding no managers available in the Middle East, Burger Queen brought in management and crew from its operations in Thailand and the Phillipines. Workers are given one trip home per year in addition to wages.

Management for Wendy's overseas units primarily started out on the ground floor in domestic stores, working their way into operations. They are overseas on two year leaves from their domestic positions to help get things off the ground. This is one reason the Company has had few expansion problems, according to Betty Young.

Several companies have established special training programs for licensees and operators of overseas restaurants.

A & W International's program runs two to three months, compared to one month's training for domestic operations.

"Domestically, managers have more contact with a regional supervisor," explains Robert Henninger. "The international operators need to be able to do more on their own.

> The elements of success in international expansion are not that different from those in the U.S.

Marketing they can adapt to local situations. We give a course in purchasing; they need to order more and allow more delivery time. We also get more into equipment maintenance and repair so they can be more self-sufficient."

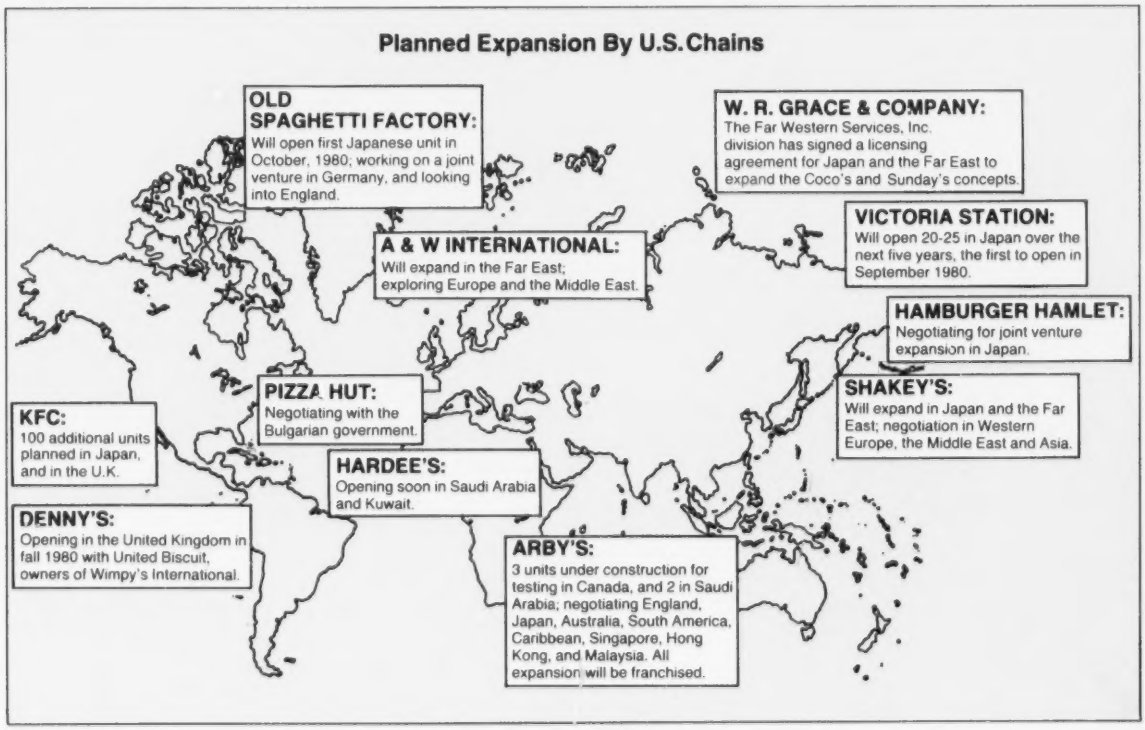
The number of foodservice chains poised for international expansion is as extensive as the number already operating overseas. The prognosis is that those capable of training and supplying their operations internationally, and being a bit flexible in responding to local markets will reap profits.

"To date, the most successful overseas operations of American fast food companies have been concentrated in Japan, Australia and Canada," says Robert Emerson. "In percentage terms, at least, the impressive growth in Australia and Canada has largely run its course. The most important markets as a source of growth in the 1980's will include West Germany and Britain, in addition to continuing high rates of expansion in Japan."

Many chains share Hardee's sentiments of the more chains in the market the easier to educate the public. Latecomers can be at a disadvantage in competing with the market pioneers, however. Wendy's Young, for instance, reports that while all their overseas stores are doing very well, "people don't realize that Wendy's hamburger is bigger than McDonald's. We have to reeducate consumers."

Interestingly, most international restaurant expansion to date, aside from hotel-related restaurant operations, have been by fast food operations.

Victoria Station and Old Spaghetti Factory are among the first full-service restaurants to expand overseas. It will be interesting to follow their progress, and learn if other full-service chains follow their lead. □


Planned Expansion By U.S. Chains
OLD SPAGHETTI FACTORY:
Will open first Japanese unit in October, 1980; working on a joint venture in Germany, and looking into England.
W. R. GRACE & COMPANY:
The Far Western Services, Inc. division has signed a licensing agreement for Japan and the Far East to expand the Coco's and Sunday's concepts.
VICTORIA STATION:
Will open 20-25 in Japan over the next five years, the first to open in September 1980.
A & W INTERNATIONAL:
Will expand in the Far East; exploring Europe and the Middle East.
HAMBURGER HAMLET:
Negotiating for joint venture expansion in Japan.
SHAKEY'S:
Will expand in Japan and the Far East; negotiation in Western Europe, the Middle East and Asia.
PIZZA HUT:
Negotiating with the Bulgarian government.
KFC:
100 additional units planned in Japan, and in the U.K.
HARDEE'S:
Opening soon in Saudi Arabia and Kuwait.
DENNY'S:
Opening in the United Kingdom in fall 1980 with United Biscuit, owners of Wimpy's International.
ARBY'S:
3 units under construction for testing in Canada, and 2 in Saudi Arabia; negotiating England, Japan, Australia, South America, Caribbean, Singapore, Hong Kong, and Malaysia. All expansion will be franchised.